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SUBJECT: TROUBLED ADOLESCENCE FOR PANAMA'S RESIDENTIAL
TOURISM INDUSTRY

REF: A. PANAMA 317

[1](#)B. PANAMA 319

[1](#)1. (SBU). Panama's residential tourism industry is struggling to maintain its momentum in the face of rising prices, increased construction costs and potential excess supply. According to Paul McBride, CEO of Panamanian real estate marketing company Prima Panama, the selling price of the average condominium unit under construction in Panama City for the expatriate market is \$289,000, 9% higher than the median value of homes in the U.S. (\$266,000). Panama City high rises, partially spurred by speculation, may not reach full occupancy. Incomplete sales create financial exposure for the buyers, developers and the financial institutions involved. Conversely, full occupancy would mean unprecedented demand for city services and paralytic traffic jams. Legal, labor, and environmental problems, and higher material costs plague many developments in the interior elongating build times. Panama's developers and government are facing the difficult reality of delivering on their marketing and advertising claims. Nonetheless, the marketing machinery continues to accelerate. International Living's held its biggest event ever in Panama October 18 to 21. Approximately 90% of the 225 attendees were from the U.S. Panama's tourism ministry (IPAT) plans to spend \$43 million to promote Panama over the next four years. END SUMMARY

WHERE HAVE ALL THE DEALS GONE ?

[1](#)2. (U) Panama's expatriate driven residential tourism industry is concentrated in Panama City, Boquete, and Bocas del Toro. Additional developments are occurring along the Pacific coast west of Panama City and into the Azuero peninsula. According to Panama's Tourism Ministry (IPAT), there are 161 buildings under construction in Panama City and another 55 approved waiting to start construction. Panama City's skyline is undergoing a remarkable transformation due to high-rise construction. In the past 18 months, Panama City prices have doubled from \$1000 a square meter to \$2000 for new properties with some high end developments reaching \$3000 a square meter.

[1](#)3. (SBU) Media reports state there are currently seven major residential developments and more than 25 smaller developments in progress in the western area of Boquete. With more than \$20 million in development investment in Boquete over the last three years, the total investment in the area is expected to exceed \$160 million. Amcit developer Sam Taliaferro told Econoff the number of foreigners living in Boquete is roughly 300, many of whom are living in Panama part-time. Taliaferro stated there are up to 3000 home sites available in the Boquete area, but it will take 15 years to

build these homes even if they were all sold today. Land prices in Boquete have risen from between \$2 to \$8 a square meter to between \$50 and \$100 in the last 10 years. Boquete is also within sight of the Baru Volcano, an active volcano currently being monitored by the U.S. Geological Survey (septel).

14. (U) Three large developments are in progress in Bocas del Toro, Isla Solarte (183 lots), Red Frog Beach (800 lots) and Sunset Point (174 lots) with two more under consideration, Bocas del Drago and a possible Decameron Resort. Red Frog Beach, offers condominiums, town houses and beachfront homes from \$275k to \$800k. Sunset Point is advertising \$85,000 to \$350,000 per lot and building costs of \$100 per square foot. However, construction timeframes in Bocas del Toro equal or exceed that of Boquete.

SUPPLY COULD OUTPACE EXPATRIATE DEMAND

15. (U) The U.S. Government Accountability Office (GAO) reported in August 2006 that 95% of America's 77 million baby boomers do not have assets of any significant value. The top 5% control 52% of the financial assets held by this generation. The slowdown in the U.S. housing market threatens the ability of American retirees to depend on the equity in their existing U.S. properties to meet their commitments in Panama. Increased airfares and further security measures may also impact the appeal of home ownership or retirement too far from friends and family. Ultimately, the expatriate retiree market is smaller than industry boosters may portray and is price sensitive.

16. (U) According to Panama's immigration department, 759 Pensioner Visas were issued last year. About 70% were issued to U.S. citizens (534), 7.5% to Canadians (57), 3.4% to UK citizens (26), 3.3% to Colombians (25), 1.6% to Cubans (12) and the remaining 14% to other countries (105). Pensioner visas issued for the first six months of 2006, still show 70% American (343), 10% Western Europe (50), 7% Canada (33), 3% UK (14), 3%, Venezuela (14), and the remaining 6% to other countries. Comment: The actual number of expatriate property owners in Panama is probably higher as many people do not spend the entire year here and visit under a tourist visa instead. Nonetheless, the annual number of Americans immigrating to Panama appears to be in the hundreds, not the thousands. End comment.

7.(U) Prima Panama estimates that 60% to 70% of the Panama City units sold to the expatriate market have been purchased by speculators who make 5% to 10% down payments and anticipate "flipping" these units prior to the due date of the remaining balances. Prima Panama studies identified up to 120 buildings actively in the sales cycle. Their research indicates that over the next five years, up to 20,000 apartments are scheduled to be completed in Panama City. (Note: a City of Miami Planning Department study stated almost 12,000 apartments were build in the Miami metro area between 1995 and 2006.) Prima Panama surveys further showed that of the expatriates considering buying in Panama, only 18% said they wanted to live in Panama City. The rest indicated a preference for either the mountains, the beach or the islands.

18. (SBU) Comment: If all of the Panama City buildings in construction and scheduled to be constructed proceed, excess supply threatens the speculators ability to unload their purchases in time. Speculators could walk away from their down payments or unload these units at drastically reduced prices. End Comment. Local realtors told Econoff that expatriate apartment owners in Panama City who purchased in the last three years now looking to resell at appreciated prices have been unable to do so.

19. (U) A private study contracted by the Inter-American Development Bank and partially leaked to the press in June/July 2006, sharply criticized Panama's residential tourism policies. The IADB study reportedly stated there was no real local benefit and the development was damaging the environment. The study noted the lack of urban planning and regulation to manage the explosive growth. The mayor of Bocas del Toro and leaders of the Ngobe Bugle and the Nocribo comarcas (indigenous reservations) have asked Panama's tourism ministry (IPAT) to suspend the granting of any further concessions in their territory due to the lack of urban planning (septel).

110. (U) The IADB study considers Panama's promotion of residential tourism a mistake, noting the displacement of Panamanians, including the indigenous, from their traditional sources of subsistence for one time payoffs. Many low income land owners throughout Panama are seduced into selling their land for attractive prices but are too inexperienced to properly invest this one time windfall. Once the money is spent, the study suggests that these families find themselves without alternative affordable housing or their traditional livelihood.

SOCIAL AND ENVIRONMENTAL DISPUTES ON THE RISE

11.(U) As predicted, the growing expatriate presence is increasingly controversial (reftels). Traditionally a coffee and flower growing region, Boquete now boasts virtually full employment. However, many local Panamanian residents complain of the higher prices for food and services as a result of the influx of foreigners. Comment: Besides

providing employment, many of Panama's initial wave of high energy expatriate retirees are also very community service oriented. Local chapters of the Lions' Club, Rotary Club and other homegrown associations are conducting school lunch programs, donating computer equipment and raising money for basic repairs and sanitation for the dilapidated public schools in their district. End Comment.

STILL A NICE PLACE TO VISIT

12.(U) In August, the World Tourism Organization reported Panama received an estimated 1 million visitors in 2005, with an equal or greater number expected in 2006. According to Panama's Tourism Minister Ruben Blades, foreigners visit Panama to shop, as tourists/eco-tourists and part time residents, in transit to other parts of Central and South America and to conduct business related to the Canal, the Colon Free Zone and Panama's financial district. Panama's hotel industry announced \$80 million in investment between now and 2010 to support more affordable eco-tourism and an influx of visitors related to the possible Canal expansion.
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